

Message Text

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51

ACTION EUR-12

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DEPT FOR SECRETARY KISSINGER; DEPT PASS AGRICULTURE FOR BUTZ;
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TAGS: EAGR, EEC, ETRD

SUBJECT: COUNTERVAILING DUTIES--EC CHEESE

REF: EC BRUSSELS 01118

1. BEGIN SUMMARY: U.S. OFFICIALS MET WITH EC POLICY AND TECHNICAL
OFFICIALS ON MARCH 24-25 TO SEEK SOLUTION TO EC SUBSIDY
U.S. COUNTERVAILING DUTY PROBLEM. EC PROPOSED TO CONTINUE
THE REMOVAL OF EXPORT RESTITUTIONS ON CHEDDAR, COLBY,
MONTEREY AND TO IMMEDIATELY REMOVE THE RESTITUTIONS ON DANISH
BLOCK CHEES. IN ADDITION, EC AGREES TO MAINTAIN A PRICE GAP
OF 12 PERCENT FOR EMMENTHALER AND GRUYERE CHEESES ABOVE U.S.
WHOLESALE PRICES, AND TO INSTITUTE A COOPERATIVE MONITORING
PROGRAM INVOLVING USDA AND EC MISSION, WASHINGTON, D.C.,
TO INSURE THE PRICE GAPS. ILLINOIS AGREED TO FORMALIZE THIS
PROPOSAL IN WRITING. THE USDA TEAM AND AMBASSADOR GREENWALD
RECOMMEND THAT THE USG ACCEPT THIS OFFER.
END SUMMARY.

2. GOODMAN AND ANDERSON MET WITH EC OFFICIALS FRANKLIN, WIJNMALLEN,
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FIELDING AND COMMISSION DAIRY EXPERTS ON MARCH 24 TO DISCUSS THE

TECHNICAL AND PRICE ASPECTS OF CURRENT EC CHEESE EXPORTS TO THE U.S. THE DISCUSSION FOCUSED ON 1) A CHEESE BY CHEESE COMPARISON OF THE EC TARIFF/RESTITUTION CATEGORIES WITH THE VARIOUS TYPES OF CHEESE IMPORTED INTO THE U.S. AND 2) DETAILED PRICE COMPARISONS OF EC OFFER AND SELLING PRICES IN THE U.S. FOR COLBY, MONTEREY, EMMENTHALER, EDAM, GOUDA AND DANISH BLOCK CHEESE USED FOR PROCESSING. THERE WAS DISAGREEMENT ON BOTH SIDES OVER SEVERAL PRICES AND THE ELEMENTS THAT MAKE THEM UP, PARTICULARLY EXPORTER/IMPORTER MARGINS, TRANSPORT COSTS, AND HANDLING CHARGES FOR VARIOUS CHEESES. THE EC POINTED OUT THAT THEIR CHEESES PRICES WILL INCREASE OVER THE NEXT FEW WEEKS DUE TO THE RECENT SUPPORT PRICE INCREASE FOR MILK AND RECENT ACTIONS TAKEN TO ELIMINATE OR REDUCE EXPORT RESTITUTIONS. THEY DID NOT DENY THAT RECENT DANISH OFFERS HAD UNDERCUT U.S. CHEESE PRICES. IN FACT, IN THE MEETING WITH ASSISTANT SECRETARY YEUTTER, LARDINOIS ADMITTED THAT THE DANES HAD USED ADDITIONAL PRODUCT BOARD FUNDS OVER TNA ABOVE EC RESTITUTIONS TO PRICE CERTAIN CHEESES AS LOSS LEADERS IN AN EFFORT TO "RECAPTURE" THE U.S. MARKET.

3. THE ABOVE MEETINGS SET THE STAGE FOR SUBSEQUENT DISCUSSIONS BETWEEN ASSISTANT SECRETARY YEUTTER, AMBASSADOR GREENWALD, AND LARDINOIS ON MARCH 25. THE CURRENT STATUS OF EC CHEESE SALES TO THE U.S. AND THE COUNTERVAILING DUTY ACTION WERE AGAIN DISCUSSED IN DETAIL COVERING MUCH OF THE SAME GROUND DISCUSSED THE PREVIOUS WEEK WITH WIJNMALLEN IN WASHINGTON. YEUTTER URGED THE REMOVAL OF EC RESTITUTIONS ON EMMENTHALER GRUYERE AND DANISH CHEESE (BLOCK CHEESE) USED FOR PROCESSING, POINTING OUT THAT OTHER POSSIBLE ACTIONS SUCH AS MINIMUM EXPORT PRICES OR GAP PRICING WOULD BE FIDDICULT TO ADMINISTER AND ENFORCE AND THAT JUST ONE INSTANCE OF UNDERCUTTING IN THE U.S. MARKET WOULD SURELY RESULT IN THE IMMEDIATE APPLICATION OF COUNTERVAILING DUTIES.

4. AFTER MUCH DISCUSSIN OF THE PROBLEM LARDINOIS ASKED FOR A SHORT RECESS AND RETURNED WITH THE FOLLOWING PROPOSAL:
A. THE EC WOULD AGREE TO CONTINUE THE REMOVAL OF RESTITUTIONS ON CHEDDAR, COLBY AND MONTEREY, IMMEDIATELY REMOVE RESTITUTIONS ON DANISH BLOCK CHEESES (CODES 512011, 512015, 512021), AND ENSURE THAT PRICES OF EC EMMENTHALER AND GRUYERE AT THE WHOLESALE LEVEL IN THE U.S. WILL BE MAINTAINED AT LIMITED OFFICIAL USE

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12 PERCENT ABOVE U.S. WHOLESALE MARKET PRICES AT PORTS OF ENTRY. EC ACTIONS TAKEN ON OTHER CHEESES ON FEBRUARY 6 WOULD ALSO BE CONTINUED (REFTEL).

B. LARDINOIS SAID HE WOULD BE PREPARED TO FORMALIZE THIS PROPOSAL IN AN OFFICAL LETTER OF UNDERTAKING TO THE U.S. IN A LETTER INCLUDING A COMMITMENT TO MONITOR THEIR PRICES FOR EMMENTHALER AND GRUYERE THROUGH A COOPERATIVE PROGRAM INVOLVING USDA AND THE EC MISSION IN WASHINGTON.

5. ASSISTANT SECRETARY YEUTTER POINTED OUT THAT WHILE OUR MAIN CONCERN RELATED TO CHEESES ON WHICH THE EC HAS TAKEN OR IS PROPOSING ACTION, WE COULD NOT OVERLOOK THE POSSIBILITY OF OTHER CHEESES UNDERCUTTING U.S. PRICES IN THE FUTURE.

YEUTTER ASKED FOR ASSURANCES THAT CORRECTIVE ACTIONS WOULD BE TAKEN BY THE EC SHOULD SUCH UNDERCUTTING OCCUR. IN THE ABSENCE OF CORRECTIVE ACTION, YEUTTER EXPLAINED, COUNTERVAILING DUTIES WOULD HAVE TO BE APPLIED. LARDINOIS SAID THAT IN SUCH CIRCUMSTANCES US/EC CONSULTATIONS ON CHEESE SHOULD RESUME WITH A VIEW TO FINDING A MUTUALLY ACCEPTABLE SOLUTION.

6. YEUTTER SAID HE WOULD IMMEDIATELY DISCUSS THE EC PROPOSAL WITH APPROPRIATE U.S. OFFICIALS AND U.S. DAIRY INDUSTRY REPRESENTATIVES, AND GIVE LARDINOIS AT LEAST A TENTATIVE RESPONSE AT A LUNCHEON MEETING HOSTED BY AMBASSADOR GREENWALD AT 1:00 P.M. ON MARCH 26.

7. THE MISSION AND USDA TEAM RECOMMEND USG ACCEPTANCE OF THE LARDINOIS PROPOSAL. SINCE LARDINOIS WILL BE AVAILABLE FOR FURTHER DISCUSSIONS ONLY DURING THE AFTERNOON OF MARCH 26, WE NEED AN OFFICIAL U.S. GOVERNMENT REPLY BY TELEPHONE NO LATER THAN 3:00 P.M. BRUSSELS' TIME, IF AT ALL POSSIBLE. YEUTTER MAY BE REACHED AT AMBASSADOR GREENWALD'S RESIDENCE THROUGH THE EMBASSY SWITCHBOARD. REPLY SHOULD BE CONFIRMED BY IMMEDIATE CABLE. GREENWALD

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